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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000097

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USDOC FOR 4332 MAC/ITA/WH/JLAO
SECSTATE PASS TO AGRICULTURE
AMEMBASSY BRIDGETOWN PASS TO AMEMBASSY GRENADA
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TAGS: [ECON](#) [PGOV](#) [EINT](#) [EAGR](#) [EINV](#) [CO](#) [FR](#) [VE](#)
SUBJECT: CHAVEZ SEIZES EXITO, ASKS FOR LEGAL REFORM TO FACILITATE
EXPROPRIATIONS

REF: 09 CARACAS 1599; 08 CARACAS 1765; 09 CARACAS 206
09 CARACAS 1014; CARACAS 27

CLASSIFIED BY: DUDDY, AMBASSADOR, DOS, AMB; REASON: 1.4(B), (D)

11. (C) SUMMARY: On January 17, in what he described as an effort to halt inflation, President Chavez ordered the expropriation of the French-Colombian Exito hypermarket chain for illegally raising prices in violation of Venezuelan law. Chavez announced that the expropriated stores-together with the Sambil Mall in Caracas-would join the government-run Corporation of Socialist Markets (COMERSO). During the same broadcast, Chavez told his ministers that a draft "expropriation" law to prevent price speculation was too lenient, and asked them to revise the legislation so that he could swiftly expropriate businesses that raise prices illegally. On January 21, the National Assembly approved a reform of the Law for the Defense of the People's Access to Goods and Services that would allow the executive to take "exceptional" measures to prevent price speculation. On the same day, the Executive Vice President of the National Supermarket Association (ANSA) told EmbOffs that he did not anticipate additional supermarket expropriations in the near future, but expected inventories to decline unless the Venezuelan government (GBRV) authorized price increases soon. END SUMMARY.

Chavez wants a sword to slash prices

12. (SBU) On January 17, in a weekly "Hello, President" radio and television broadcast that lasted over seven hours, President Chavez ordered the expropriation of the Exito hypermarket chain and the unopened Sambill Mall in the La Candelaria neighborhood of Caracas, announcing that both would join COMERSO, a recently inaugurated chain of government-run retail stores that plan to sell household goods, cars, clothing, and food at discount prices (Ref A). Chavez claimed that Exito, in particular, had engaged in price speculation and hoarding in violation of Venezuelan law. (NOTE: Chavez first announced the expropriation of Sambil in December 2008, while the mall was still under construction; he argued that the mall would encourage consumerism and increase traffic in downtown Caracas. See Refs B,C,D for a chronological overview of the expropriation of Sambil. END NOTE.)

¶3. (C) During the same broadcast, Chavez said that a draft "expropriation" law to prevent price speculation was too lenient and asked his ministers to revise the law so that he could expropriate businesses without previous warnings, fines, or temporary closures: "What I want is a sword," Chavez said. On January 21, the National Assembly approved a reform to the Law for the Defense of the People's Access to Goods and Services that would empower the state to intervene immediately in the event of price manipulation or hoarding. The reform appears to be an attempt to fight inflation following the currency devaluation announced on January 8 (Ref E). Specifically, the reform would authorize the executive to declare goods and services of "public utility or social interest," take "exceptional" measures to prevent price increases, and temporarily occupy businesses during expropriation proceedings—all without prior approval by the National Assembly.

¶4. (SBU) On January 19, before the draft law was approved by the legislature or signed by the President, the National Assembly authorized the occupation of six Exito stores and the initiation of expropriation proceedings against Sambil Mall in the name of "public utility and social interest." The local press has reported extensively on the reaction to the expropriation of Exito stores across the country: in Maracaibo, Exito employees protested the

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occupation, fearing the loss of benefits; in Valencia, the occupation caused clashes between workers who support and oppose the measure; and in Puerto La Cruz, Commerce Minister Eduardo Saman and Interior Minister Tareck El Aissami personally supervised the GBRV takeover.

Saman threatens to expropriate CADA supermarket

¶5. (SBU) The French firm Casino Guichard Perrachon SA owns 67 percent of Cativen—the holding company that operates six Exito stores and the CADA supermarket chain in Venezuela—together with the Colombian company Almacenes Exito SA. Although the GBRV has not yet expropriated CADA, on January 18, during an interview with the state-run Venezolana de Television (VTV), Commerce Minister Eduardo Saman said that CADA was "even worse" than Exito and that there was "no alternative but expropriation." Saman claimed that CADA imported food at the official exchange rate of 2.6 bolivars to the dollar and sold the same products at the parallel rate, marking up prices and "restricting the supply to make people believe there are shortages." Saman told the press that the GBRV was "enforcing the law in the people's defense" and would compensate Cativen for the expropriation of Exito—after subtracting debts owed to the workers, taxes owed to the government, and "other things."

Supermarket industry experts concerned about the future

¶6. (C) On January 21, the Executive Vice President of the National Supermarket Association (ANSA) Luis Rodriguez (strictly protect throughout) told EmbOffs that he was worried about the future of the supermarket industry following Exito's expropriation. Rodriguez said that the GBRV wanted to send a clear message that unauthorized price increases would be punished severely. (NOTE: According to Rodriguez, industry experts have speculated that the GBRV specifically targeted Exito because of its Colombian ownership. END NOTE.) Following Exito's expropriation, the supermarkets have decided to freeze prices until they receive notification from their suppliers that the Institute for the Defense of the People's Access to Goods and Services (INDEPABIS) has authorized price increases. Meanwhile, the supermarkets will not purchase new products from their suppliers, a situation that

could result in shortages if current inventories run out.

¶17. (C) Nevertheless, Rodriguez doubted that the GBRV planned to expropriate additional supermarkets in the immediate future for three reasons: 1) the GBRV does not have the technical expertise to manage large supermarket chains; 2) smaller government-run chains like Mercal and PDVAL-which Chavez recently promised to expand-have had distribution and logistical problems that have forced many stores to close; 3) the expropriation, mismanagement, and eventual failure of private supermarkets could have political costs for President Chavez.

¶18. (C) COMMENT: There are several ways to analyze Exito's expropriation. First, and most immediately, the expropriation appears to be part of the GBRV's strategy for fighting inflation in the wake of the recent currency devaluation. President Chavez has sent a clear message that unauthorized price increases will be met with expropriation, a message that our contacts in the supermarket industry appear to have received. Secondly, the expropriation has short-term political benefits in advance of the National Assembly elections scheduled for September 2010: the GBRV can claim that it has defended the Venezuelan consumer from capitalist price gouging

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while using Exito's infrastructure to sell cheap televisions and refrigerators through COMERSO, its network of socialist markets. Thirdly, from an ideological perspective, the expropriation-coming days after President Chavez's first admission that he is a Marxist to a hushed National Assembly on January 15 -is yet another indication of Chavez's economic vision. END COMMENT.
CAULFIELD